BRITISH BEAUTY COUNCIL

The British Beauty Council – Spring Budget submission

Dear Chancellor,

The British Beauty Council represents the personal care industry, from the professional services sector to the retailer, SME to global business, manufacturer to brand owner. It serves to raise the reputation of the industry and champion its vital role in influencing the policy agenda on issues such as trade, sustainability, education, growth and levelling-up.

The personal care industry is an ideal representation of the Great Britain that the UK Government seeks to promote –

- a significant exporter of high-quality goods with 65% of UK made goods exported to the EU (higher that the 51% overall average),
- breaking the glass ceiling of women in senior roles with more than 80% of businesses female led,
- highly indexed in poorer areas of the UK offering routes into employment, training and career growth to aid upward social mobility, and
- committed to education and apprenticeships with 77,000 specialist qualifications undertaken in 2021/22.

As the Spring Budget approaches, the sector's importance should not be overlooked. In 2022, Oxford Economics concluded that as an industry, beauty had contributed £24.5bn to the UK's GDP, more than the creative, arts, and entertainment sector, and £6.8bn to the Treasury through tax. It has, however, faced challenges – often also experienced by other labour-intensive industries – that could be overcome with a fresh approach and relatively low levels of investment from Government.

There are **5 key areas of recommendation** we hope that the Treasury will take forward as part of the Spring Budget. The Council believes these measures will help to ensure the future success of the British beauty industry and by design, wider society, in the years to come. They are as follows:

1. **Onshoring and greening the manufacture of UK goods,**
2. **Review of current labour taxation to incentivise apprenticeship offering,**
3. **Introduction of tax-free shopping for overseas visitors to demonstrate the UK is open to the world as a retail destination,**
4. **Encourage SME growth by reviewing existing VAT policy to address almost half of hair and beauty services sitting in 50-99k turnover band (47%), more than double the economy average (22.5%),**
5. **The continuation of business rate relief for retail, hospitality and leisure industries.**

1. Onshoring and greening the manufacture of UK goods

Manufacturing in the personal care industry is estimated to contribute £3.7 billion[1] to UK GDP. However, with the British beauty industry's strong reputation and high consumer demand, it has significant potential to contribute much more.

The UK has a rich history in homegrown beauty brands, from Yardley, Neals Yard and The Body Shop to Vidal Sassoon, John Frieda and Charlotte Tilbury – and has the potential to develop many more. Yet, at present, much of the industry's manufacturing is sourced across Europe due to a lack of British manufacturing. Colour cosmetics in Italy, fragrance, glass packaging and nail varnish in France, skincare in Switzerland, pencils in Germany etc.

The Council strongly believes that with greater investment in product manufacturing here in Great Britain, the UK could increase productivity to that of our global counterparts, lead the way in sustainable manufacturing practices and become a trailblazer for green automation and AI. AI is already playing an important role in the beauty industry, helping to identify consumer preferences and using insights to build new personal care products[2]. With investment, beauty businesses could more easily develop product lines on UK soil rather than relying heavily on other countries to source and develop products, components and packaging.

[1] Value of Beauty, Oxford Economics, p.26

[2] Value of Beauty, Oxford Economics, p.65

The Council therefore urges the Treasury to -

- **Encourage new business start-ups across beauty manufacturing by offering capital investment in areas where the UK shines - creativity and innovation**
- **provide greater education and incentivisation to SMEs to make sound 'green' investment in business operations.**

This would assist in the onshoring businesses here in the UK and help to drive the much-needed shift towards greater innovation and productivity in key areas such as sustainable packaging, product formulation, and reduced water usage. It would also help in reducing carbon emissions from overseas imports as well as circumvent many of the import and export issues that have frustrated business post Brexit.

2. Review of current labour taxation for 'good employers' to incentivise apprenticeship offering

The trend towards self-employment as means of avoiding rising staff costs and the VAT threshold continues to grow within the personal care sector. This puts businesses that maintain a traditional employment model at an immediate disadvantage, with 65% of their tax liability made up of labour taxes[3] in having to pay associated staff costs, which usually means their prices are higher.

With a higher proportion of micro (78%) and small businesses (95%[4]) compared to most other industries, businesses within the hair and beauty sector are most likely to have less than five employees, making each one vital to the operation and income of the business. Investing in an apprentice is therefore a significant business decision and one which data suggests fewer salons are choosing to take. Yet we know employers are vital to vocational education as a key facilitator in this process. Simply put, without enough employers, the current apprenticeship and training model cannot survive.

Greater incentives for small business owners who take on apprentices and retain and nurture staff would do a great deal to level the playing field in this regard.

The Council therefore urges the Treasury to –

- **increase in the current HMRC Employment Allowance to £8,000 (from £5,000) for SME businesses with apprentices.**

This would reduce National Insurance liability for SMEs, giving up to £250 per month to put toward funding an apprentice, incentivise employment and staff retention, and help to enable the growth of emerging new talent.

- **Make training in new areas of business tax-deductible whether employed or self-employed.**

This would address current HMRC guidelines which do not allow expenses to be claimed for training that expands into new areas of business. This disincentivises innovation, stifles productivity and goes against the Government's commitment to promoting lifelong learning to acquire vital new skills.

3. Introduction of tax-free shopping for overseas visitors to demonstrate the UK is open to the world as a retail destination

The British Beauty Council continues to support the cross-industry call for the introduction of an internationally competitive, tax-free shopping scheme for international visitors in the Spring Budget.

As businesses operating across retail, tourism, manufacturing, hospitality, culture, and real estate, our industries collectively employ huge swathes of the public and contribute significantly to local economies in all UK nations and regions. The removal of tax-free shopping has had a negative impact on business revenue, and for some, forced businesses to downsize operations, take steps to reduce their UK footprint and mitigate the impact across supply chains. It has also coincided with a general domestic decline in footfall in city centres, with more people working from home post pandemic, meaning businesses are hit two fold.

The Council was encouraged by your comments on making the British tourism and retail industry competitive at the Autumn Statement and welcomes your decision to review the economic impact of the removal of tax-free shopping. British shops are losing £1.5 billion per year as non-EU international visitors choose instead to spend in France, Italy, and Spain where tax-free shopping schemes are in place[5].

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[3] Value of Beauty, Oxford Economics, p.24-5
[4] Value of Beauty, Oxford Economic, workbooks data.
[5] Assessing the Impact of Tax Free Shopping, Oxford Economics, November 2022

As a part of a coalition of business groups collectively operating across every nation and region of the UK, we want to make clear that a decision to introduce a new internationally competitive scheme would be welcomed across the entire country. From manufacturers and retailers, to businesses and hospitality venues in great towns and cities nationwide, to both big and small businesses - all would benefit from a boost in visitor numbers and spend increase to match those experienced by nations we compete with on the world stage.

The Council therefore urges the Treasury to –

- **introduce a new, internationally competitive tax-free shopping incentive for all overseas visitors.**

This is an incentive that works for the Exchequer and the economy, positioning the UK as a global leader, securing its economic recovery, and boosting the local economies up and down the country.

4. Encourage SME growth by reviewing existing VAT policy to address almost half of hair and beauty services sitting in 50-99k turnover band, more than double the economy average (22.5%).

The British Beauty Council has long campaigned to cut the VAT paid by the hair and beauty services sector as a business model with little scope to claim VAT back on products. The current VAT policy actively deters growth by hitting businesses with such a burdensome tax bill as soon as the minimum threshold has been met.

The Council maintains its position of calling for the Treasury to cut rate of VAT for the hair and beauty services sector. Across the whole economy, it also supports calls from organisations such as the FSB to –

- **raise the VAT threshold from £85,000 to £100,000,**
- **apply a smoothing mechanism to reduce the initial impact of VAT liabilities on SMEs.**

The smoothing mechanism would reduce 'bunching' under the VAT threshold, most prevalent in the hair and beauty services sector, and unlock additional economic activity.

In line with the Council's commitment to supporting net-zero, it also strongly supports –

- **the introduction of a VAT-based investment incentive for net-zero related investments, allowing SMEs reclaim 150 per cent of the VAT paid on specified green purchases.**

The Council agrees with the FSB that such an incentive would motivate SMEs to invest more in net zero despite the long payback periods, provide fast cash back into the business, and create an incentive for small businesses to register for VAT.

5. Continuation of business rate relief for retail, hospitality and leisure industries

The Council has lobbied for reliefs in business rates since the start of the pandemic. This has gone on to be an important lifeline for high street businesses across the industry recovering post-COVID and managing the impact of the cost-of-living crisis, and specifically within hair and beauty services has been a contributing factor in salons rebounding to 81% of their 2019 pre-Covid peak[6].

As an industry of 95 per cent small and microbusiness owners[7], business rates are a huge barrier to growth. It is a tax levied on business regardless of how much profit it has made – whether it has been a good year or a bad one. It inhibits business development and causes firms to hold back on investments that stand to boost productivity.

The Council therefore urges the Treasury to –

- **continue the current freezes on the business rates multipliers and extend business rates relief for hospitality, leisure and retail at 75% beyond the 2024/25 tax year.**

Conclusion

We believe that many objectives of the British Beauty Council and UK Government correlate. Beyond the intrinsic value of the personal care industry to the economy which must be recognised, many of our initiatives, such as those concerning business entrepreneurship, innovation and technology, sustainability and education, are grounded in a similar vision.

We are confident that our work will ensure a thriving sector that contributes socially, economically and environmentally to Britain. The Council looks forward to your support in achieving this.

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[6] Value of Beauty, Oxford Economics, p.35
[7] Value of Beauty, Oxford Economics, workbooks data.